HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Ottawa* **

CANADA MORTGAGE AND HOUSING CORPORATION

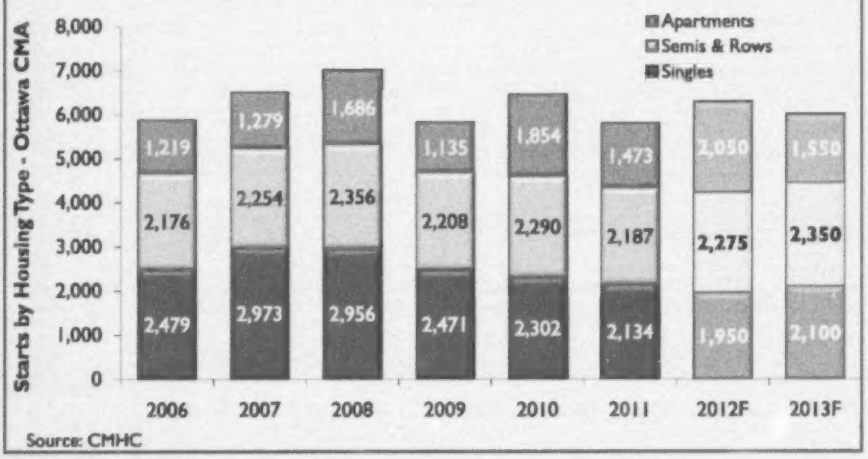
Date Released: Spring 2012

Market at a Glance

- MLS® sales in the Ottawa CMA will remain solid posting a marginal increase this year followed by a slight decline in 2013. Market fundamentals will remain supportive of sustained housing demand, driven by strengthening local economic conditions as well as a positive migration outlook.
- Ottawa prices will grow at a slower rate – in line with the general rate of inflation through to 2013. The pace of income growth has not kept pace with price growth such that demand will ease for the remaining of the year and continue moderating into 2013.
- New home starts are set to increase this year by a healthy 8 per cent

Figure 1

Housing Starts Consistent with Demographic Needs



Source: CMHC

*Ontario part of Ottawa-Gatineau CMA

**The forecasts included in this document are based on information available as of April 27, 2012.

Table of Contents

1 Market at a Glance

2 Resale Market

3 New Home Market

4 Economic Overview

5 Mortgage Rate Outlook

6 Forecast Summary

SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at **www.cmhc.ca/housingmarketinformation.** View, print, download or subscribe to get market information e-mailed to you on the day it is released. CMHC's electronic suite of national standardized products is available for free.

and will remain consistent with the current rate of household formation needs in 2013. Favourable labour market conditions will sustain apartment construction this year. This segment is projected to return to a level more in line with historical norms next year.

Resale Homes Market

Sales will cool from early year levels but stabilize in 2013

Existing home sales in the Ottawa CMA are expected to remain at robust levels for the forecast horizon through to 2013. Interestingly, for the first time MLS® sales will register four consecutive years of virtually unchanged levels of activity. Lower mortgage rates supported home sales early this year; however, the robust first quarter is expected to be counter-balanced by modest slowing in demand, particularly during the second half of 2012.

Tighter mortgage market conditions and growing home prices will dampen demand for the remaining part of this year. Nevertheless, home sales will remain at historically high levels. A slightly improved economic outlook in the North American economy stands to benefit Ontario and therefore also Ottawa, providing further endorsement to housing demand into 2013.

Firmer balanced market conditions ahead

While the pace of housing demand will remain dynamic, the supply side of the equation is set to become an increasingly influential factor in Ottawa's resale market going forward. As homeowners will continue to take advantage of rising home prices by advertising their homes for sale, expect new home listings to grow by 1.7 per cent this year and inch up further in 2013. This will in turn add to the one-and-a-half year old run-up in the size of the inventory of homes actively listed for sale, thereby contributing to the firming up of balanced market conditions with roughly one buyer for every two new for-sale signs.

Figure 2

Price Growth will Decelerate as Demand Stabilizes

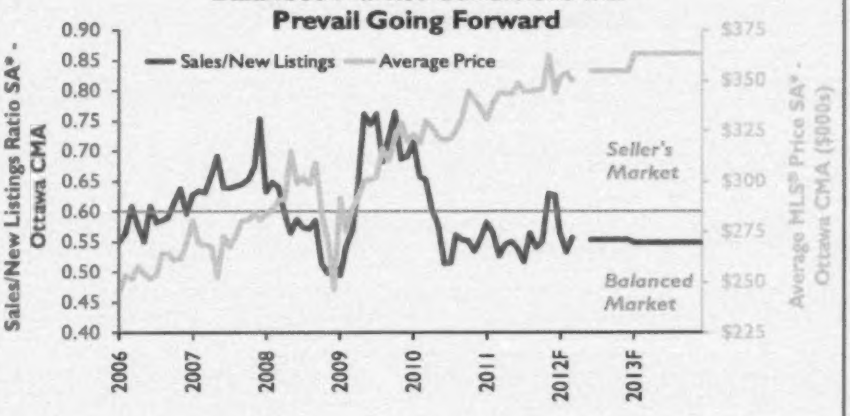
Source: Ottawa Real Estate Board; CMHC Forecast
(MLS® is a registered trademark owned by the Canadian Real Estate Association)

Expect only moderate growth in housing prices

Given balanced market conditions, most local home buyers will encounter competitive fair-market

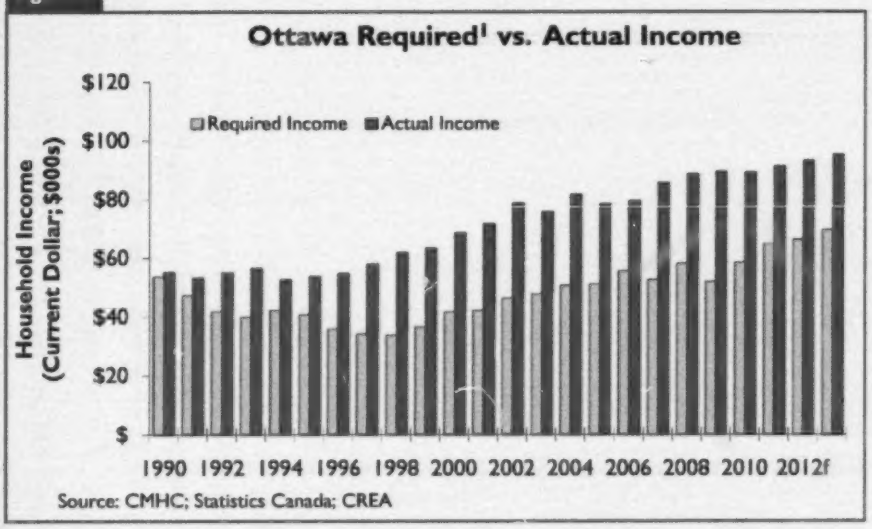
Figure 3

Balanced Market Conditions will Prevail Going Forward



Source: CREA; CMHC Forecast ranges
* Seasonally adjusted. (MLS® is a registered trademark owned by the Canadian Real Estate Association)

Figure 4



pricing strategies. This will, in turn, further consolidate the current moderating trend in housing price growth throughout the forecast period. As a result, the pace of average home price growth will converge to the general rate of inflation both this year and next.

While income growth will not keep pace with price growth, low mortgage rates and stronger job growth will endorse housing demand in 2012; nevertheless, the rate of demand growth will start easing for the remaining of the year and continue moderating into 2013. According to the latest CMHC calculation, required income to buy a home in Ottawa relative to the actual income for the average household will remain largely unchanged this year and post a small increase in 2013. Consequently, a modest decline in homeownership affordability is projected for 2013 driven mainly by a slight uptick in mortgage rates.

New Home Market

New home construction consistent with current demographic needs

Total housing starts in 2012 are expected to exceed last year's moderate pace of activity. According to the latest 2011 Census data the new home building pace will virtually match the current[2] demographic needs as measured by new household formation. Housing demand fundamentals coupled with an active labour market performance will support a recovery in starts to take hold this year. Additionally, expected tighter mortgage market conditions and concerns about construction financing next year will increase activity in 2012.

A significant change in residential construction expected for this year involves a trend towards intensification favouring demand for high-density dwellings. Consistent with the emerging socioeconomic and demographic trends, CMHC forecasts new home buyers to continue sustaining higher-density and more affordable housing choices. This will in turn translate into fewer new single- and semi-detached homes and more row and apartment units in 2012.

Decline in single-detached home starts nearing an end

CMHC forecasts 2012 will be the last year in the long declining trend in single-detached home construction experienced for most of the past decade. The number of single starts will temporarily retreat below the 2,000 starts mark for the first time in 15 years, before re-emerging back above that mark next year thanks to improving prospects for job and income growth. Nevertheless, the segment's influence in residential construction activity will remain above a third of the total this year and next.

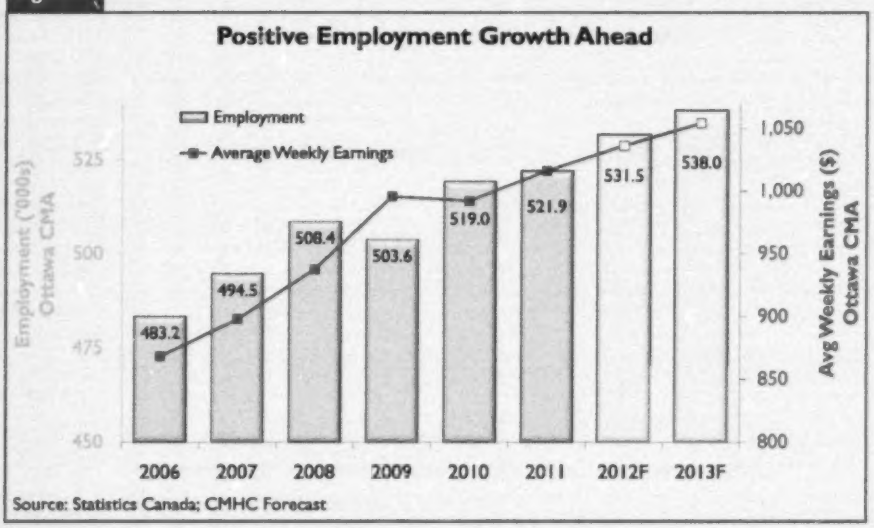
Several factors support the single-family home starts outlook. Given last year's strong rise in average absorption prices for new singles, some repeat-buyers will favour more affordable resale single homes.

---

[1] Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

[2] According to Statistics Canada's 2011 Census, the annual average growth in total private residences (proxy for households) equalled 6,224 per year since 2006. This lies above the historical longer-term average household formation growth of around 5,800 per year.

Figure 5



Furthermore, increased efforts toward higher city densification levels in preparation for the future LRT plans, coupled with high prices at the pump, will combine to dampen any significant short-term rebound in single starts.

The moderate pace of demand for new single-detached homes is expected to ease pressures on price growth. Accordingly, the new housing price index is expected to slow and mimic the inflation rate. Similarly, following a double-digit rise last year, growth in the average absorption price for new single-detached homes is set to stall this year and inch higher only modestly in 2013 to remain below the half-million dollar mark.

Higher-density construction to make up the difference

New townhome construction has gathered some momentum and is now on track to match single starts for the first time since the mid-1990s. First-time buyers and downsizing empty-nesters continue to view row units as a good match to their housing consumption goals. On the other hand, the growing selection of larger higher-end models can in fact offer an attractive budget alternative to repeat-buyers who may decide to stay loyal to this segment. Expect construction of townhomes to improve this year and inch up into 2013.

After over two decades of apartment starts below the 2,000 unit mark, in 2012 this housing segment will lead construction growth in the Capital City. This year, construction of condominium apartments will outpace last year's level by over 35 per cent. The growing number of empty-nesters seeking high-end condominium apartments, coupled with young professionals, will prompt increasing construction of these dwellings closer to the Downtown core.

On the other hand, the extension of historically low financing rates and increasing popularity of condominium apartments will continue capturing investor's interest. Additionally, low vacancy rates and weak growth of the purpose-built rental apartment construction segment will continue positioning rental condominium apartments as the major source of new rental supply.

Expect that cautious optimism on household budget planning coupled with favourable demographic trends will keep these key emerging home-buyer groups in the driver seat in favour of new higher-density housing demand in 2012. Apartment construction this year will be strengthened by improving economic and labour market conditions. Next year, building intentions for this type of dwelling are projected to return to a level more in line with historical norms.

Economic Overview

Improvement in labour market prospects

Following a positive but lacklustre performance last year, the robust first-quarter labour market expansion reflects a solid improvement in market sentiment among both employers and jobseekers at a time when local businesses and households, and particularly public servants, were anxiously expectant of the outcomes from the Federal and Provincial budgets.

The Federal budget, in turn, resulted in milder-than-expected impacts on Ottawa's main employer, the public sector. As a result, with the bulk of job uncertainty left behind, Ottawa's economy stands to be in a firmer position to take advantage of the gradual progress in broader economic fundamentals taking place in both the U.S. and Ontario. Local employment is therefore expected to increase by

1.8 per cent this year and advance further in 2013, albeit at a slower rate of growth.

Labour force in recovery mode

The heavier factor driving labour market trends for the remaining of 2012 will be the expected recovery in the labour force supply. The first quarter expansion set the tone for labour supply to outpace demand during 2012 before stabilizing next year. Prospects seem to have turned for the better among previously discouraged jobseekers as they are set to drive a comeback in the supply of resumes circulating around the city in excess of employers' ability to absorb. Accordingly, the unemployment rate is set to inch back up to 6.2 per cent by year-end before declining next year.

CMHC expects average labour wages to grow at a slightly slower pace this year as market pressures remain restrained by higher competition among prospective job applicants. Next year, as Ottawa's unemployment rate subsides, income growth will post a moderate increase from the level attained in 2012. With more high-quality full-time private sector jobs being created as prospects improve, consumer spending on both small- and big-ticket items will remain a positive contributor to Ottawa's economy.

Ottawa migration to remain at high levels

The health of Ottawa's labour market conditions will support its positive migratory pull. The expectation of labour income growth and subsiding uncertainty levels with respect to public sector jobs will undoubtedly attract people moving both from other parts of Canada and from different countries. Worthy of note is that Ottawa's recent immigrants are on average more educated than their previous immigrant counterparts. Such qualities will continue allowing them to perform well in the labour market and, therefore, will provide a boost to the homeownership market. Net migration is expected to remain at high levels this year and next.

Mortgage Rate Outlook

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

Forecast Summary Ottawa CMA Spring 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	14,923	14,586	14,551	14,600	0.3	14,570	-0.2
MLS® New Listings	22,290	25,061	25,949	26,400	1.7	26,600	0.8
MLS® Average Price ($)	304,801	328,439	344,791	355,000	3.0	363,500	2.4
New Home Market							
Starts:							
Single-Detached	2,471	2,302	2,134	1,950	-8.6	2,100	7.7
Multiples	3,343	4,144	3,660	4,325	18.2	3,900	-9.8
Semi-Detached	299	362	361	325	-10.0	350	7.7
Row/Townhouse	1,909	1,928	1,826	1,950	6.8	2,000	2.6
Apartments	1,135	1,854	1,473	2,050	39.2	1,550	-24.4
Starts - Total	5,814	6,446	5,794	6,275	8.3	6,000	-4.4
Average Price ($):							
Single-Detached	406,647	431,729	478,292	475,000	-0.7	480,000	1.1
Semi-Detached	458,781	397,907	425,223	-	n/a	-	n/a
Median Price ($):							
Single-Detached	382,900	419,990	455,990	449,000	-1.5	457,000	1.8
Semi-Detached	425,000	337,400	352,900	-	n/a	-	n/a
New Housing Price Index (% chg) (Ottawa-Gatineau)	1.5	4.0	3.0	2.3	-	2.5	-
Rental Market							
October Vacancy Rate (%)	1.5	1.6	1.4	1.3	-0.1	1.2	-0.1
Two-bedroom Average Rent (October) ($)	1,028	1,048	1,086	1,122	3.3	1,152	2.7
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	503,600	519,000	521,900	531,500	1.8	538,000	1.2
Employment Growth (%)	-1.3	3.1	0.6	0.5	-	0.6	-
Unemployment rate (%)	5.6	6.5	5.6	6.2	-	5.9	-
Net Migration	9,482	9,964	10,587	10,000	-5.5	9,000	-10.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 65 years.

Together with other housing stakeholders, we help ensure that the Canadian housing system remains one of the best in the world. We are committed to helping Canadians access a wide choice of quality, environmentally sustainable and affordable housing solutions that will continue to create vibrant and healthy communities and cities across the country.

For more information, visit our website at www.cmhc.ca

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.
Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/housingmarketinformation

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to priced, printed editions of MAC publications, call 1-800-668-2642.

©2012 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please contact the Canadian Housing Information Centre (CHIC) at chic@cmhc.ca; 613-748-2367 or 1-800-668-2642.

For permission, please provide CHIC with the following information:
Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

Housing market intelligence you can count on

FREE REPORTS AVAILABLE ON-LINE

- Canadian Housing Statistics
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Renovation and Home Purchase Report
- Rental Market Provincial Highlight Reports *Now semi-annual!*
- Rental Market Reports, Major Centres
- Rental Market Statistics *Now semi-annual!*
- Residential Construction Digest, Prairie Centres
- Seniors' Housing Reports

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

CMHC's Market Analysis Centre e-reports provide a wealth of detailed local, provincial, regional and national market information.

- **Forecasts and Analysis –** Future-oriented information about local, regional and national housing trends.
- **Statistics and Data –** Information on current housing market activities — starts, rents, vacancy rates and much more.

Are you interested in housing research?

Stay up-to-date with the latest housing research findings and events related to sustainable housing and communities, housing conditions and trends, housing finance and more.

Subscribe Today to CMHC's Housing Research E-Newsletter!

64311_2012_B01